

**SOLOMON RESOURCES LTD.**

**Financial Statements**

**(Unaudited)**

**January 31, 2011**

# **SOLOMON RESOURCES LTD.**

**P O Box 938**

**Vernon BC, CANADA V1T 6M8**

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## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

For further information please contact:

Randall S Rogers, President and CEO

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**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Consolidated Balance Sheets**  
**(Unaudited)**

	<b>January 31</b>	<b>July 31</b>
	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,007,070	\$ 573,353
Reclamation deposit	18,000	18,000
Tenement bond	11,927	11,164
Receivables	48,448	37,326
Prepaid expenses	17,930	78,360
	<b>1,103,375</b>	<b>718,203</b>
<b>Reclamation Deposit</b>	<b>10,000</b>	<b>10,000</b>
<b>Equipment</b>	<b>34,700</b>	<b>23,224</b>
<b>Mineral Property Interests (Note 3)</b>	<b>1,108,063</b>	<b>1,176,543</b>
	<b>\$ 2,256,138</b>	<b>\$ 1,927,970</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 80,761	\$ 190,484
	<b>80,761</b>	<b>190,484</b>
<b>Shareholders' Equity (schedule)</b>		
Share capital (Note 4)	29,018,011	27,754,111
Contributed surplus	1,233,350	1,010,935
Deficit accumulated in the exploration stage	(28,075,985)	(27,027,560)
	<b>2,175,376</b>	<b>1,737,486</b>
	<b>\$ 2,256,138</b>	<b>\$ 1,927,970</b>

The accompanying notes form an integral part of these financial statements.

**APPROVED ON BEHALF OF THE BOARD:**

"Randall S Rogers" (signed)  
 Director

"Ronald K. Netolitzky" (signed)  
 Director

**SOLOMON RESOURCES LIMITED****(An Exploration Stage Company)****Consolidated Statements of Operations****(Unaudited)****Three and six months ended January 31****Three Months Ended****January 31****2011****2010****Six Months Ended****January 31****2011****2010****General and Administrative Expenses**

Office and miscellaneous	\$	11,719	18,000	25,221	\$	25,494
Professional fees		51,450	13,416	58,460		49,682
Management fees		82,353	46,665	131,040		94,364
Stock based compensation		109,793	16,986	109,793		16,986
Amortisation		7,932	5,789	14,246		11,578
Rent		4,671	4,573	9,789		9,131
Travel, promotion and shareholder costs		55,834	1,387	94,339		12,947
Stock exchange fees		4,531	3,615	4,531		12,483
Transfer agent fees		6,037	9,533	8,957		11,744
		334,318	119,964	456,374		244,409
<b>LOSS BEFORE OTHER ITEMS</b>	<b>\$</b>	<b>(334,318)</b>	<b>(119,964)</b>	<b>(456,374)</b>		<b>(244,409)</b>

**Other Items**

Oil, and gas, net	\$	1,163	3,496	6,426	\$	8,101
Interest, net		2,375	-	3,292		62
Gain / (loss) on sale of investments (net)		-	365	-		(8,350)
Write off of expenditures on resource properties		(597,795)	(224,865)	(601,892)		(224,865)
Recovery of expenditures on resource properties		-	-	-		3,833
Gain / (loss) on exchange		(229)	42,566	124		42,576
		(594,487)	(178,438)	(592,051)		(178,643)
<b>LOSS BEFORE INCOME TAXES</b>	<b>\$</b>	<b>(928,805)</b>	<b>(298,402)</b>	<b>(1,048,425)</b>		<b>(423,052)</b>

**Income Tax Recovery (Expense)**

Current		-	-	-		-
Future		-	-	-		-
<b>NET LOSS FOR THE PERIOD</b>	<b>\$</b>	<b>(928,805)</b>	<b>(298,402)</b>	<b>(1,048,425)</b>		<b>(423,052)</b>
<b>Net Loss Per Share</b>	<b>\$</b>	<b>(0.04)</b>	<b>(0.03)</b>	<b>(0.05)</b>		<b>(0.05)</b>
<b>Weighted Average Number of Shares Outstanding</b>		<b>22,809,805</b>	<b>10,341,873</b>	<b>21,253,668</b>		<b>9,138,767</b>

The accompanying notes form an integral part of these financial statements.

**SOLOMON RESOURCES LIMITED****(An Exploration Stage Company)****Statement of Changes to Shareholders' Equity in the six months ended January 31, 2011****(Unaudited)**

	<b>Capital Stock</b>		<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total Shareholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>			
<b>Balance July 31, 2010</b>	16,311,695	\$ 27,754,111	\$ 1,010,935	\$ (27,027,560)	\$ 1,737,486
Shares issued for cash	6,498,110	\$ 1,490,065			\$ 1,490,065
Share issue costs (cash based)		\$ (113,543)			\$ (113,543)
Warrants issued as finders' fees		\$ (112,623)	112,623		\$ -
Stock based compensation		\$	109,793		\$ 109,793
Net (loss) for the period		\$		(1,048,425)	\$ (1,048,425)
<b>Balance January 31, 2011</b>	22,809,805	\$ 29,018,011	\$ 1,233,350	\$ (28,075,985)	\$ 2,175,376

The accompanying notes form an integral part of these financial statements.

**SOLOMON RESOURCES LIMITED**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Cash flows**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>January 31</b>		<b>January 31</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (928,805)	\$ (298,401)	\$ (1,048,425)	\$ (423,053)
Items not involving cash				
Amortisation	7,932	5,789	14,246	11,578
Stock based compensation	109,793	16,986	109,793	16,986
Write off of expenditures on resource properties	597,795	224,865	601,892	224,865
Unrealized foreign exchange loss (gain)	-	(42,566)	-	(42,576)
Unrealised exchange loss	-	-	-	-
Recovery of expenditures previously written off on resource properties	-	-	-	-
(Gain) / loss on sale of investments	-	(365)	-	8,350
<b>Operating cash flow</b>	<b>(213,285)</b>	<b>(93,692)</b>	<b>(322,494)</b>	<b>(203,850)</b>
<b>Changes in non-cash working capital</b>				
Accounts payable and accrued liabilities	(14,677)	(136,451)	(109,723)	25,096
Prepaid expenses	8,509	(2,785)	60,430	4,308
Accounts receivable	59,692	(13,381)	(11,122)	64,238
	<b>53,524</b>	<b>(152,617)</b>	<b>(60,415)</b>	<b>93,642</b>
<b>Cash from (used in) operating activities</b>	<b>(159,761)</b>	<b>(246,309)</b>	<b>(382,909)</b>	<b>(110,208)</b>
<b>FINANCING ACTIVITIES</b>				
Cash proceeds (net) on issue of shares	-	-	1,376,523	706,583
Repayment of loans from directors	-	-	-	(100,000)
<b>Cash provided by financing activities</b>	<b>-</b>	<b>-</b>	<b>1,376,523</b>	<b>606,583</b>
<b>INVESTING ACTIVITIES</b>				
Proceeds on sale of investments (net)	-	23,755	-	155,715
Other investments made	-	-	-	(154,000)
Recovery of Mineral Exploration Tax Credit (B.C.)	-	-	-	-
(Additional) / Recovery of reclamation deposits and bonds	73	28,720	(763)	720
Purchase of equipment	(19,427)	-	(25,722)	(1,079)
Cash expenditures on resource properties	(57,366)	(99,632)	(533,412)	(518,118)
<b>Cash provided by (used in) investing activities</b>	<b>(76,720)</b>	<b>(47,157)</b>	<b>(559,897)</b>	<b>(516,762)</b>
<b>Inflow / (Outflow) of cash and cash equivalents</b>	<b>(236,481)</b>	<b>(293,466)</b>	<b>433,717</b>	<b>(20,387)</b>
<b>Cash and cash equivalents:</b>				
- beginning of year	1,243,551	393,156	573,353	120,077
- end of year	\$ 1,007,070	\$ 99,690	\$ 1,007,070	\$ 99,690
<b>Cash and cash equivalents consist of:</b>				
Balances in bank accounts	\$ 107,070	99,690	107,070	99,690
GIC's	\$ 900,000	-	900,000	-
<b>Supplemental Information</b>				
Income tax paid	\$ -	\$ -	\$ -	\$ -
Interest paid	\$ -	\$ -	\$ -	\$ -
Shares issued for interest in resource properties	\$ -	\$ -	\$ -	\$ 150,000
Mineral property interest expenditures included in accounts payable	\$ 4,792	\$ -	\$ 4,792	\$ -

The accompanying notes form an integral part of these financial statements.

# SOLOMON RESOURCES LIMITED

(An Exploration Stage Company)

## Notes to Financial Statements

January 31, 2011

Unaudited

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### 1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and accordingly do not include all disclosure required for annual financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered for a fair presentation have been included. Operating results for the six and three months ended January 31, 2011 are not necessarily indicative of the result that may be expected for the full year ending July 31, 2011.

These statements should be read in conjunction with the July 31, 2010 annual financial statements, including the accounting policies and notes thereto, included in the Annual Report for the year ended July 31, 2010. These financial statements reflect the same significant accounting policies as those described in the notes to the audited financial statements of Solomon Resources Limited for the year ended July 31, 2010.

#### Adoption of New Accounting Standards at August 1, 2010

- (a) Change in accounting policy

##### *Business Combinations*

In January 2009, the Canadian Institute of Chartered Accountants (“CICA”) issued Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”. These sections replace the former Section 1581, “Business Combinations”, and Section 1600, “Consolidated Financial Statements”, and establish a new section for accounting for a non-controlling interest in a subsidiary.

The Company has early adopted CICA Handbook Section 1582, which replaces the previous business combinations standard. The new standard requires that all of the assets acquired and the liabilities assumed in a business combination be recorded at fair value, which was not the case under the previous standard. The new standard also requires that previously held ownership interests be re-measured to the acquisition date fair value, rather than being restated to cost. In addition, the new standard requires that all acquisition costs associated with the acquisition are expensed, rather than being capitalized as part of the acquisition, that contingent liabilities are recognized at fair value at the acquisition date and subsequently re-measured to fair value with changes

# SOLOMON RESOURCES LIMITED

(An Exploration Stage Company)

## Notes to Financial Statements

January 31, 2011

Unaudited

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recognized in earnings, and that a bargain purchase is recognized in earnings rather than being allocated to non-monetary assets.

The Company also early adopted CICA Handbook Sections 1601 and 1602, which together replaced Section 1600. Section 1602 requires non-controlling interests to be presented within equity.

The adoption of the new sections has been completed on a prospective basis and has no impact on the Company's consolidated financial statements.

- (b) Future accounting change

### *International Financial Reporting Standards ("IFRS")*

In 2008, the Canadian Accounting Standards Board confirmed that the transition to IFRS from Canadian generally accepted accounting principles will be effective for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements commencing with its October 31, 2011 interim financial statements. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended July 31, 2011. The Company is currently evaluating the impact of the conversion on the Company's consolidated financial statements and is considering accounting policy choices available under IFRS.

## 2. Nature of Business and Ability to Continue as a Going Concern

The Company was incorporated on August 1, 1989 under the Laws of British Columbia. Its principal activity is the exploration for and development of natural resource properties either directly or indirectly through its investments.

The Company's financial statements have been presented on the basis that it will continue as a going-concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company has an accumulated deficit of \$28,075,985 as at January 31, 2011. These losses and the need for continued funding, discussed below, raise substantial doubt about the Company's ability to continue as a going-concern.

The Company's ability to continue as a going concern is dependent upon its continuing liquidity. This is likely to require additional financings in order to complete the exploration and development of the Company's properties, and to realize its assets and discharge its liabilities in the normal course of business. The Company's going concern is thus dependent on its ability to raise new capital when necessary.



**SOLOMON RESOURCES LIMITED****(An Exploration Stage Company)****Notes to Financial Statements****January 31, 2011****Unaudited****3. Investment in and expenditures on resource properties – six months to January 31, 2011**

	Balance Jul 31, 2010	Additional spending	Write offs / recoveries	Balance Jan 31, 2011
<b>Mongolia SRM</b>	\$ 1,000	12,416	(12,416)	\$ 1,000
<b>Sleitat</b>	\$ 1	-	-	\$ 1
<b>Cry Lake</b>	\$ 586,603	2,873	(589,476)	\$ -
<b>Ten Mile Creek</b>	\$ 583,938	454,594	-	\$ 1,038,532
<b>Pacer</b>	\$ 1,123	23,537	-	\$ 24,660
<b>Rosie</b>	\$ 1,123	26,706	-	\$ 27,829
<b>SW Yukon</b>	\$ 2,755	13,286	-	\$ 16,041
	\$ 1,176,543	533,412	(601,892)	\$ 1,108,063

**4. Capital Stock**

## (a) Authorized

Unlimited Common shares without par value

## (b) Issued

	Number of shares	Amount
At July 31, 2010	16,311,695	\$27,754,111
At January 31, 2011	22,809,805	\$29,018,011

During the second quarter the Company did not issue any shares.

**SOLOMON RESOURCES LIMITED****(An Exploration Stage Company)****Notes to Financial Statements****January 31, 2011****Unaudited****(c) Stock Options**

At January 31, 2011 the following options were outstanding:

Expiry Date	Exercise Price	Number of shares
April 20, 2011	\$ 3.600	5,000
April 5, 2012	\$ 3.600	42,000
January 8, 2013	\$ 3.600	20,000
October 2, 2013	\$ 2.500	82,000
December 1, 2014	\$ 0.265	570,000
February 3, 2015	\$ 0.350	100,000
February 3, 2015	\$ 0.500	100,000
December 17, 2015	\$ 0.165	810,000
Total		<b>1,729,000</b>

**(d) Share purchase warrants**

At January 31, 2011 the following warrants were outstanding. Under certain conditions the exercise price may change.

Expiry Date	Exercise Price	Number of Warrants
September 23, 2011	\$ 0.30 - 0.40	1,547,617
October 30, 2011	\$ 0.30 - 0.40	275,000
April 14, 2012	\$ 0.25 - 0.30	496,200
April 23, 2012	\$ 0.25 - 0.30	2,306,568
July 23, 2012	\$ 0.15 - 0.30	9,415,732
Total		<b>14,041,117</b>

**Contingent warrants issuable: 773,188**